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November 5, 2007

To: Rebecca Park
Associate Legislative Counsel
Michigan Farm Bureau

From: John Williams
Senior Business Consultant
Salisbury Management Services

RE: Comments on Use Tax on Services in Michigan

Dear Ms. Park:

Thank you for the opportunity to express our position on the implementation of use taxes on certain services in Michigan. In brief, our position is that the service tax on services should be repealed. Our reasoning is as follows:

- We agree that Michigan has a very large hole in its budget that cannot be resolved by additional cuts in expenses and replacement revenue is a must if the service tax is repealed.
- We question if proper analysis has been done, so the legislature is informed of the estimated costs of compliance on those Michigan businesses that must set up systems to bill their customers and comply with this new law, in the relatively short period of time we have been given. Initial costs of compliance will be relatively high to those firms that have not had to charge sales or use taxes in the past.
- The new use tax law is very complicated, especially in tying use tax implementation to NAICS codes, which were not intended to be used as a basis for taxation. One may question if the revenue estimates are close to being accurate given the unfamiliarity that both the tax-paying public and the Michigan Department of Treasury are in using NAICS codes for tax assessment. If revenue estimates are not correct, we may be back discussing a revenue shortfall sometime in 2008.
- Our clients are primarily in agriculture. Agriculture is one of the growing areas in the Michigan economy and will be hit hard because of its reliance on consulting services, including environmental services (NAICS code 541620) and agronomy services, dairy herd consulting services, and livestock breeding services (NAICS code 541690), although there is a question if these services are exempt or not. Other clients include landscaping (NAICS code 56173); some of the services of a

landscaper are exempt and some are not – resulting in confusion as to when to charge tax and when not to.

- Since this is a very complicated tax to administer and comply with, we feel that it deserves a full public hearing and comment period before it is implemented. That reason alone is enough to warrant rescinding the use tax on services and putting a temporary increase in the MBT to offset the lost revenue. Given sufficient time, the legislature can then devise a replacement tax that is understandable and does not have the high cost of administration and compliance.